

Audited Basic Financial Statements

Salem-South Lyon District Library

**Year Ended June 30, 2006
With Report of Independent Auditors**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Salem-South Lyon District Library	County Washtenaw
Fiscal Year End June 30, 2006	Opinion Date August 17, 2006	Date Audit Report Submitted to State August 17, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

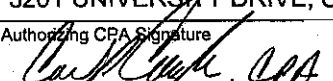
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ANDREWS HOOPER & PAVLIK, PLC		Telephone Number 248-340-6050	
Street Address 3201 UNIVERSITY DRIVE, SUITE 350		City AUBURN HILLS	State MI
Authorizing CPA Signature 		Printed Name COLLEEN P. CAVANAUGH, CPA	Zip 48326
		License Number 1101028252	

Salem-South Lyon District Library

Audited Financial Statements

Year Ended June 30, 2006

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

The Library Board
Salem-South Lyon District Library
South Lyon, Michigan

We have audited the financial statements of the Salem-South Lyon District Library (the Library) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem-South Lyon District Library as of June 30, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements of Salem-South Lyon District Library. The information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

Auburn Hills, Michigan
August 4, 2006

Salem-South Lyon District Library
Balance Sheet / Statement of Net Assets
June 30, 2006

	General Fund	Debt Service Fund	Balance Sheet - Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets:					
Cash and cash equivalents	\$ 321,013	\$ 97,309	\$ 418,322	\$ -	\$ 418,322
Investments	858,682	-	858,682	-	858,682
Other assets	3,861	-	3,861	-	3,861
Due from other funds	-	10,739	10,739	(10,739)	-
Capital assets - net of accumulated depreciation	-	-	-	2,161,858	2,161,858
Total assets	\$ 1,183,556	\$ 108,048	\$ 1,291,604	2,151,119	3,442,723
Liabilities:					
Accounts payable	\$ 9,403	\$ -	\$ 9,403	-	9,403
Accrued liabilities	8,214	-	8,214	12,629	20,843
Due to other funds	10,739	-	10,739	(10,739)	-
Current portion of long-term debt	-	-	-	130,000	130,000
Total current liabilities	28,356	-	28,356	131,890	160,246
Long-term liabilities - net of current portion	-	-	-	1,571,532	1,571,532
Total liabilities	28,356	-	28,356	1,703,422	1,731,778
Fund Balances and Net Assets:					
Fund balance - reserved for debt service	-	108,048	108,048	(108,048)	-
Fund balance - unrestricted					
Designated for capital improvements	268,271	-	268,271	(268,271)	-
Designated for equipment purchases	18,070	-	18,070	(18,070)	-
Designated for education and training	6,196	-	6,196	(6,196)	-
Undesignated	862,663	-	862,663	(862,663)	-
Total fund balances	1,155,200	108,048	1,263,248	(1,263,248)	-
Total liabilities and fund balances	\$ 1,183,556	\$ 108,048	\$ 1,291,604		
Net Assets:					
Invested in capital assets, net of related debt				486,858	486,858
Restricted for debt				108,048	108,048
Unrestricted				1,116,039	1,116,039
Total net assets				\$ 1,710,945	\$ 1,710,945

Salem-South Lyon District Library
Statement of Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities
Year ended June 30, 2006

	General Fund	Debt Service Fund	Revenues and Expenditures - Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:					
Property tax	\$ 698,555	\$ 220,022	\$ 918,577	\$ -	\$ 918,577
Service contract - Green Oak Township	194,960	63,654	258,614	-	258,614
Fines and fees	74,634	-	74,634	-	74,634
State aid	14,719	-	14,719	-	14,719
Grants	8,000	-	8,000	-	8,000
Gifts and miscellaneous	18,837	-	18,837	-	18,837
Interest on investments	47,856	4,786	52,642	-	52,642
Total revenues	<u>1,057,561</u>	<u>288,462</u>	<u>1,346,023</u>	<u>-</u>	<u>1,346,023</u>
Expenditures:					
Personnel	518,204	-	518,204	7,214	525,418
Library services and materials	132,937	-	132,937	(79,715)	53,222
Facilities and equipment	184,516	-	184,516	(121,311)	63,205
Other expenditures	52,502	-	52,502	-	52,502
Debt service	-	206,750	206,750	(125,938)	80,812
Depreciation	-	-	-	189,912	189,912
Total expenditures	<u>888,159</u>	<u>206,750</u>	<u>1,094,909</u>	<u>(129,838)</u>	<u>965,071</u>
Excess of revenues over expenditures and change in net assets	169,402	81,712	251,114	129,838	380,952
Fund balance/net assets - beginning of year	<u>985,798</u>	<u>26,336</u>	<u>1,012,134</u>	<u>317,859</u>	<u>1,329,993</u>
Fund balance/net assets - end of year	<u>\$ 1,155,200</u>	<u>\$ 108,048</u>	<u>\$ 1,263,248</u>	<u>\$ 447,697</u>	<u>\$ 1,710,945</u>

Salem-South Lyon District Library

Notes to the Basic Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Introduction

The accounting policies of Salem-South Lyon District Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

The Library was established in May 1993 by a District Library Agreement between Salem Township and the City of South Lyon pursuant to the District Library Establishment Act. The Library's boundaries include the City of South Lyon, Michigan and the Township of South Lyon, Michigan, and a small area of the Township of Salem located within the jurisdiction of the Ann Arbor Public Schools. The Library is funded through a tax levy on property located within the district, fines, fees and state aid.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in the accounting principles generally accepted in the United States of America, currently GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to accounting principles generally accepted in the United States of America as applicable to governmental units.

The Library's financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, statements of revenues, expenditures and changes in fund balances present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest, state aid and the service contract revenues are susceptible to accrual and are considered available if they are collected within 60 days of the fiscal year. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The Library reports the following major governmental funds:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state aid distributions, grants and other intergovernmental revenues.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Debt Service Fund

This fund accounts for the retirement of the 1996 General Obligation Unlimited Tax bonds.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at market value based on quoted market prices and consist of certificates of deposit, governmental cash funds and mutual funds.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending and borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	30 years
Equipment, furniture and fixtures	5 - 7 years
Library books, periodicals and videos	3 years

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Other Assets

Certain payments to vendors reflect costs applicable to the upcoming fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the government funds only for employee terminations as of year end.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental funds types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Service Contract Revenue

The Library also services Green Oak Township under a separate operating agreement. The fee for this service is funded by a millage of Green Oak Township.

Income Taxes

The Library is a Governmental sub-unit organization and as such is not subject to federal income tax.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk

Cash deposits and investments (certificates of deposit with maturities less than 90 days, money market funds and a governmental cash fund) are carried at cost. Cash deposits and investments of the Library are in the name of the Library at various banks and investment companies.

At June 30, 2006, the Library had two depository accounts and a government cash investment account. The Library follows Michigan Compiled Laws, Section 129.91, authorizing deposits and investments in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The book value of the Library's bank deposits, consisting of checking and money market accounts, certificates of deposit with maturities less than 90 days and a government cash investment account were \$436,107. Of the bank balance, \$213,960 was covered by Federal Depository Insurance and \$222,147 was uninsured and uncollateralized; therefore, subjecting the Township to custodial credit risk. Custodial risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. However, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

3. Investments

At June 30, 2006, the Library had the following investments with maturities less than one year:

	Fair Market Value
Deposits:	
Certificates of Deposit	\$ 322,614
Money Market	97,309
Government Cash Investment Fund	222,147
Investments:	
Mutual Funds	614,856
Total investments	<u>\$ 1,256,926</u>
Less investments reported as "Cash and Cash Equivalents" on the Statement of Net Assets	<u>398,244</u>
Total investments	<u>\$ 858,682</u>
As reported on Statement of Net Assets	
Current investments	\$ 858,682
Noncurrent investments	-
Total investments	<u>\$ 858,682</u>

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for custodial credit risk. The Library also has the following investment policies further limiting its investment choices:

- Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of the state or the United States.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

- Commercial paper rated at the time of purchase at the highest classification established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase. Total portfolio investment shall not exceed 10%.
- Repurchase agreements consisting of instruments listed in above. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Library has negotiated a Master Repurchase Agreement. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Purchase Agreement.
- Bankers' acceptances of United States banks.
- Mutual Funds registered under the Investment Company Act of 1940, maintain a \$1.00 per share net asset value and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

As of June 30, 2006, the credit quality rating of the mutual funds with a fair value of \$614,856 were Aaa by Moody's and AAAM by Standard and Poors. The credit quality rating of the mutual funds with a fair value of \$222,147 were A1 by Moody's and P1 by Standard and Poors. The money market account was rated AAA by Moody's. Certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's investments in mutual funds are not exposed to custodial risk. The Library's certificates of deposit are not rated however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

3. Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices by maturity dates, individual financial institutions or specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment in foreign currency.

4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
Assets not being depreciated:				
Land	\$ 152,000	\$ -	\$ -	\$ 152,000
Other capital assets:				
Building	2,399,816	-	-	2,399,816
Equipment, furniture and fixtures	325,677	121,311	(7,163)	439,825
Library books, periodicals and videos	930,471	79,715	(43,425)	966,761
Subtotal	3,655,964	201,026	(50,588)	3,806,402
Accumulated depreciation	(1,657,220)	(189,912)	50,588	(1,796,544)
Net capital assets being depreciated	1,998,744	11,114	-	2,009,858
Capital assets - net	\$ 2,150,744	\$ 11,114	\$ -	\$ 2,161,858

Depreciation expense for the year ended June 30, 2006 was \$189,912.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

5. Long-term Debt

At June 30, 2006, outstanding debt consisted of the following:

Accumulated employee benefits payable to employees under the Library's vacation and sick pay policy. \$ 26,532

Unlimited Tax General Obligation Bonds, for the purpose of acquiring, constructing, equipping and furnishing a library building, which were dated February 1, 1996. The debt is secured by a pledge of the Library's limited tax full faith and credit. Due in installments May 1, 2004 through May 1, 2016 bearing interest between 6.5% and 4.6%. 1,675,000
Total long-term debt \$ 1,701,532

The following is a summary of the changes in long-term debt for the year ended June 30, 2006:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Accumulated Employee Benefits	\$ 19,318	\$ 7,214		\$ 26,532
General Obligation Bonds	<u>1,800,000</u>		<u>\$ 125,000</u>	<u>1,675,000</u>
	<u>\$ 1,819,318</u>	<u>\$ 7,214</u>	<u>\$ 125,000</u>	<u>\$ 1,701,532</u>
Less current portion				<u>130,000</u>
Total long-term debt, net of current portion				<u>\$ 1,571,532</u>

Debt Service Requirements

The annual principal and interest requirements through maturity for the general obligation bonds outstanding as of June 30, 2006:

Fiscal Year Ending	Principal	Interest	Total
2007	\$ 130,000	\$ 75,775	\$ 205,775
2008	140,000	69,925	209,925
2009	145,000	63,625	208,625
2010	155,000	57,100	212,100
2011	165,000	50,125	215,125
2012	170,000	42,700	212,700
2013	180,000	35,050	215,050
2014	190,000	26,950	216,950
2015	200,000	18,400	218,400
2016	200,000	9,200	209,200
	<u>\$ 1,675,000</u>	<u>\$ 448,850</u>	<u>\$ 2,123,850</u>

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

5. Long-term Debt (continued)

During the year ended June 30, 2006, the Library incurred interest expense of approximately \$81,000.

6. Defined Contribution Retirement Plan

The Library provides pension benefits to all of its eligible employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. As established by the Library board, the Library contributes six percent of employees' gross earnings and employees may contribute an amount not to exceed the Internal Revenue Service guidelines. Retirement contributions for the past three years are as follows:

	2004	2005	2006
Employer	\$ 25,986	\$ 29,735	\$ 26,028
Employee	13,322	14,452	20,624
Total contributions	<u>\$ 39,308</u>	<u>\$ 44,187</u>	<u>\$ 46,652</u>

7. Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2006 ad valorem tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Library District totaled \$744.9 million, on which ad valorem taxes levied consisted of 1.0338 mills for operating purposes and 0.3246 mills for debt service. This resulted in property taxes of \$698,555 for operating and \$220,022 for debt service. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as tax revenue.

8. Interfund Receivables and Payables

The amount of the interfund receivables and payables is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 10,739

Notes to the Basic Financial Statements (continued)

9. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. The General Fund's appropriated budget is prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the supplemental information:

1. Prior to March 15, the Library Director submits to the Library Board a proposed operating budget for the fiscal year commencing the following July 1. In May, the budget is legally adopted by the Library Board. The budget presents information by fund and line items. The legal level of budgetary control adopted by the governing body is the line item level. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law.
2. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.
3. Prior to June 1, the budget is legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the budgetary comparison schedule (accounting principles generally accepted in the United States of America) - General Fund and Debt Service Fund.
4. The Library Board must approve any revisions that alter the total expenditures for any activity.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2006.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

9. Stewardship, Compliance and Accountability (continued)

Excess Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line item basis.

During the year ended June 30, 2006, the Library incurred no expenditures in excess of the amounts appropriated.

10. Risk Management

The Library is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employee's and natural disasters. The Library does not provide medical benefits; however, employees may be eligible for a monthly stipend toward their personal medical coverage.

The Library carries commercial insurance for employee injury claims and participates in the Michigan Townships Participating Plan for claims relating to property loss, torts and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Salem-South Lyon District Library

Notes to the Basic Financial Statements (continued)

11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance – Modified Accrual Basis	\$ 1,263,248
Amounts reported in the statement of net assets are different because	
capital assets are not financial resources and are not reported in the fund financial statements	2,161,858
Compensated absences are included as a liability	(26,532)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	(12,629)
Long-term liabilities are not due and payable in the current period and are not reported in the fund financial statements	<u>(1,675,000)</u>
Net Assets – Full Accrual Basis	<u>\$ 1,710,945</u>
Net Change in Fund Balance – Modified Accrual Basis	\$ 251,114
Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books, materials and furniture and equipment	201,026
Depreciation	(189,912)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund financial statements	(7,214)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	938
Principal payments on long-term liabilities are reported as an expenditure on the fund financial statements	<u>125,000</u>
Net Change in Net Assets – Full Accrual Basis	<u>\$ 380,952</u>

Required Supplemental Information

Salem-South Lyon District Library
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Revenues:				
Property tax	\$ 703,600	\$ 698,500	\$ 698,555	\$ 55
Service contract - Green Oak Township	182,000	182,000	194,960	12,960
Fines and fees				
Penal fines	25,000	30,100	50,051	19,951
Fines	22,000	21,500	21,783	283
Nonresident fees	-	2,800	2,800	-
Total fines and fees	47,000	54,400	74,634	20,234
State aid	14,500	14,500	14,719	219
Gifts and miscellaneous				
Single business tax	3,500	3,500	3,974	474
Grants	-	9,000	9,000	-
Gifts and miscellaneous	-	13,794	13,863	69
Total gifts and miscellaneous	3,500	26,294	26,837	543
Interest on investments	18,000	25,000	47,856	22,856
Total revenues	968,600	1,000,694	1,057,561	56,867

Salem-South Lyon District Library
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Expenditures:				
Personnel				
Salaries	440,000	437,900	433,799	(4,101)
Employee benefits	42,100	44,200	44,133	(67)
Dues and workshops	3,500	3,500	3,192	(308)
FICA expense	34,000	34,000	33,439	(561)
Transportation and travel	1,600	4,119	3,641	(478)
Total personnel	521,200	523,719	518,204	(5,515)
Library services and materials				
Library materials	73,000	84,619	79,715	(4,904)
Library supplies	7,500	8,500	8,500	-
Computer supplies	5,000	2,500	2,476	(24)
Cooperative fee	34,000	34,000	33,263	(737)
Programs	9,000	9,000	8,983	(17)
Total library services and materials	128,500	138,619	132,937	(5,682)
Facilities and equipment				
Maintenance and repairs	20,000	25,350	25,056	(294)
Utilities	38,000	38,000	37,333	(667)
Insurance	8,500	6,700	6,311	(389)
Equipment	196,700	308,173	115,816	(192,357)
Total facilities and equipment	263,200	378,223	184,516	(193,707)
Other expenditures				
Contractual services	24,000	24,000	23,751	(249)
Attorney fees	500	2,250	2,243	(7)
Auditor	6,600	7,800	7,800	-
Board expenditures	500	1,000	729	(271)
Office supplies	4,500	5,500	5,403	(97)
Postage	1,500	2,000	1,984	(16)
Telephone	3,600	3,600	2,511	(1,089)
Printing	2,500	2,500	1,973	(527)
Grant expense	-	9,000	1,804	(7,196)
Gift purchases and miscellaneous	-	4,304	4,304	-
Contingency fund	12,000	12,000	-	(12,000)
Total other expenditures	55,700	73,954	52,502	(21,452)
Total expenditures	968,600	1,114,515	888,159	(226,356)
Excess (deficiency) of revenues over expenditures	-	(113,821)	169,402	283,223
Fund balance - beginning of year	985,798	985,798	985,798	-
Fund balance - end of year	\$ 985,798	\$ 871,977	\$ 1,155,200	\$ 283,223

Other Supplemental Information

Salem-South Lyon District Library
 Budgetary Comparison Schedule - Debt Service Fund
 Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Revenues:				
Property tax	\$ 205,950	\$ 205,950	\$ 220,022	\$ 14,072
Service contract - Green Oak Township	62,000	62,000	63,654	1,654
Interest on investments	800	800	4,786	3,986
Total revenues	268,750	268,750	288,462	19,712
Expenditures:				
Debt service	206,750	206,750	206,750	-
Total expenditures	206,750	206,750	206,750	-
Excess (deficiency) of revenues over expenditures	62,000	62,000	81,712	19,712
Fund balance - beginning of year	26,336	26,336	26,336	-
Fund balance - end of year	\$ 88,336	\$ 88,336	\$ 108,048	\$ 19,712

Salem-South Lyon District Library
REPORT TO THE BOARD OF TRUSTEES

August 4, 2006

Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

August 4, 2006

Board of Trustees
Salem-South Lyon District Library
9800 Pontiac Trail
South Lyon, Michigan 48178

In planning and performing our audit of the financial statements of the Salem-South Lyon District Library for the year ended June 30, 2006, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 4, 2006, on the financial statements of the Salem-South Lyon District Library.

We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing any of the recommendations. Our comments are summarized as follows:

BONDING OF EMPLOYEES

All personnel in a position of handling cash and cash transactions are not bonded. We recommend that the Library bond all personnel handling cash and cash transactions.

JOURNAL ENTRY APPROVAL

The Library does not require a responsible official who is not involved in the preparation of the journal entries to approval of journal entries that are not standard. We recommend that the library designate a responsible employee or board member to approve of journal entries that are not standard.

CHECKS & PURCHASE ORDERS

Checks and purchase orders are kept in an unlocked drawer in an unlocked office. We recommend that checks be safeguarded by putting a lock on the door to the office or a lock on the drawer to the checks.

BANK RECONCILIATIONS

Monthly bank reconciliations are not reviewed by anyone and are not presented at board meetings for review and approval. We recommend that the Library designate an employee or a board member to review bank reconciliations monthly.

FRAUD POLICY

The Library has a system of internal control in place that addresses the prevention of material misstatements, whether caused by error or fraud, although separate controls related specifically to fraud have not been formally implemented.

We recommend that the Library design and adopt a formal fraud policy in conjunction with fraud risk assessment procedures as a way to reduce the risk of incidences of fraud. The risk assessment process starts with consideration of the culture of honesty and high ethics within the Library. Cultures of honesty and high ethics clearly communicate acceptable behavior and expectations of each employee. Such a culture is rooted in a strong set of core values that provide the foundation for employees as to how the Library conducts its business. It also allows an entity to develop an ethical framework that covers (1) fraudulent financial reporting, (2) misappropriation of assets, and (3) corruption as well as other issues. Maintaining this culture requires that the Library monitor the following segments of its internal control:

1. Tone at the top
2. Maintenance of a positive workplace environment
3. Hiring and promoting appropriate employees
4. Training about the Library's values and its code of conduct
5. Confirmation that all employees will be held accountable to act within the Library's code of conduct
6. System of discipline through which the Library communicates the way it reacts to incidents of alleged or suspected fraud, including expectations about the consequences of committing fraud

Neither fraudulent financial reporting nor misappropriation of assets can occur without a perceived opportunity to commit and conceal the act. Organizations can proactively reduce the risk of fraud opportunities by:

1. Identifying and measuring fraud risks
2. Taking steps to mitigate identified risks
3. Implementing and monitoring appropriate preventative and detective internal controls and other deterrent measures

As mentioned above, while many of the Library's existing internal controls contribute to the antifraud objectives discussed in our recommendation, establishing an ongoing, formal antifraud program, including the adoption of a formal fraud policy, could further strengthen the Library's existing internal controls for preventing and detecting material misstatements on a timely basis.

Sincerely,

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan